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Investors' Role In Arms Sales Told by Casey

Dispute Arises Over When CIA Chief Discovered Funding Irregularities

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WASHINGTON—A network of private investors linked to an old friend of Central Intelligence Agency Director William Casey helped finance and sought to profit from Iranian purchases of U.S. arms, according to intelligence sources.

In secret testimony before congressional committees, Mr. Casey has said that an October meeting with his friend led the director to suspect potential irregularities and the possible diversion of funds from the sales.

But two administration sources familiar with the program said Mr. Casey knew as early as last spring that profits from the Iran sales were being funneled to Nicaraguan insurgents.

Asked last night about allegations that he knew before last month that the funds were being diverted, Mr. Casey said: "That's false. That's utterly false."

The disclosures shed new light on the role of private investors in the controversial sales and raise questions about when Mr. Casey first learned of the diversion and how he treated the evidence. Attorney General Edwin Meese has said that Mr. Casey and other top administration officials learned of the diversion of funds to the insurgents only last month, when the Justice Department discovered it.

Mr. Casey's friend, New York energy consultant Roy Furmark, warned the director that a group of Canadian investors were threatening to take legal action, possibly against Saudi financier Adnan Khashoggi, a major figure in the sales, and the U.S. government. Any such suit would have threatened the secrecy of the operation.

According to Mr. Casey's testimony, the CIA chief ordered an internal investigation into the financing of the arms sales. An administration source says Mr. Casey referred the matter to Vice Adm. John Poindexter, then President Reagan's national security adviser, and suggested he consult the White House counsel's office. Mr. Casey didn't take it directly to the president or the attorney general.

In an interview Tuesday, Mr. Furmark denied having anything to do with the arms business. The consultant has long-standing ties to the Mideast and was a close associate of Mr. Casey's late personal friend and former law client, New York oil man John Shaheen.

According to sources, Mr. Casey indicated that the investors put up an amount in the range of \$15 million to \$20 million for interim financing to carry out the sale. The investors are believed most directly tied to Mr. Khashoggi, for whom Mr. Furmark has worked, according to an intelligence source.

In testimony yesterday before the House Foreign Affairs Committee, Mr. Casey indicated that he only became aware of the potential diversion from his meeting with Mr. Furmark. But according to two administration sources knowledgeable about the Iran operation, Mr. Casey has known at least since last spring that some profits from the sales were being diverted. "Casey knew from the beginning that the Iranians were being overcharged," said one intelligence source. "And he knew that some money was being siphoned off."

The sources said that top-secret messages having to do with the Iranian arms transactions were sent on the CIA "privacy" channel used by John Kelly, U.S. ambassador to Lebanon, in his reports on attempts to free hostages in Lebanon.

The sources said that all messages carried on that channel are delivered automatically to the director's desk, and that Mr. Casey also would have received crucial intercepts of other related communications.

These intercepts, collected by the National Security Agency and distributed to the CIA, the White House and a few Pentagon officials, disclosed that the Iranians were being charged many times more than the value of the weapons they were buying, the sources said.

At the same time, last summer, CIA operatives in El Salvador, Honduras and Costa Rica charged with monitoring activities of the Nicaraguan rebels all reported to CIA headquarters an increase in supplies for the insurgents.

In addition, some of them expressed concern about the increased presence of retired Air Force Maj. Gen. Richard Secord, an important figure in the diversion scheme and in the supply network to the rebels, called Contras.

Background in Energy Business

Mr. Furmark, who is listed in Delaware records as president of Furmark Corp. in New York, has a long background in the energy business and has past ties to Roger Tamraz, a Lebanese businessman who has represented Saudi-backed companies. Mr. Tamraz, U.S. intelligence sources said, is a director of the Bank of El-Mashrek and chairman of the Bank of Kuwait & the Arab World, both in Beirut. He also is affiliated with two other Beirut businesses, Intra Investment Co. and First Arabian Corp. and with Tetra Tech Inc., an Arlington, Va., concern that the sources said employs some former CIA agents. Mr. Furmark, asked whether he had a role in the arms sale, said, "I'm not in that business. I'm an oil man." He did acknowledge that he knows Mr. Casey from their past association with Mr. Shaheen.

By the director's testimony, as related by congressional and administration sources, Mr. Casey hadn't seen Mr. Furmark for several years before the consultant approached him this year with complaints about delayed payments to the private investors. The investors had hoped to profit by providing interim financing to help carry out the sale until the Iranians made their payments. But this left them vulnerable, and Mr. Furmark warned of potential legal action that would threaten the secrecy of the sales.

In his meeting with Mr. Casey and two subsequent discussions with CIA officials, Mr. Furmark displayed what Mr. Casey described to Congress as an intimate knowledge of the operation. The director testified that it was then that he became concerned about the possibility of a diversion of funds.

But administration sources said Mr. Casey, Mr. Poindexter and Lt. Col. Oliver North, the National Security Council staffer who was fired last month for allegedly masterminding the profit-sharing scheme, went to extraordinary lengths to conceal the operation from their colleagues.

"When Casey claims he didn't know what was going on, he's saying the CIA is so incompetent it can't even monitor its own bank accounts or keep track of the Contras, which are one of its highest priorities," a source said.

Sources said that on several occasions State Department officials who got wind either of the secret arms sales to Iran or of an increase in military aid to the Contras through El Salvador were deliberately "thrown off the scent."

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'Roger Channel'

Intelligence sources said the secret operation deliberately bypassed not only the Congress but the State Department and all the administration's internal controls. Intelligence that might have revealed the operation was withheld from the Department's Bureau of Intelligence and Research. Also, Ambassador Kelly, the sources said, was told not to report his contacts with Col. North and Gen. Secord on the State Department's own back-channel, called the "Roger Channel."

At the Pentagon, the sources said, the operation bypassed the small "special coordination staff" in the office of Defense Undersecretary Fred Ikle, which normally handles projects where the Defense Department provided weapons, parts, or transport for covert CIA operations.

According to senior Pentagon officials, Defense Secretary Caspar Weinberger directed Gen. Colin Powell, then his military assistant, to order the Army to begin negotiations with the CIA for the sale of 2,008 TOW antitank missiles, plus parts for Hawk antiaircraft missiles. Also involved was Richard Armitage, assistant secretary for international security affairs, who has testified before the Senate Intelligence Committee and is expected to return for further testimony.

In addition to bypassing the officials normally responsible for such programs, Secretary Weinberger omitted several other steps that would be part of covert programs. A Pentagon document describing procedures for supporting covert activities says that notification of the congressional intelligence committees is a condition for Pentagon participation. The intelligence panels weren't notified this time.

Moreover, the department's general

counsel, who often conducts legal analyses for special arms transfers, wasn't told of the shipment to Iran.

Mr. Weinberger and other top officials say no U.S. weapons were sold in the operation before last January, when President Reagan issued a "finding" authorizing the shipments. Others have said that Pentagon officials were involved in 1985 discussions about replacing American weapons Israel planned to send Iran. "I didn't know the terms of the deal they had," said a Pentagon official who became involved in the direct shipments made through the CIA in 1986.

Defense Department officials said they were aware for some time that Israel was supplying Iran with military equipment despite the U.S. campaign to stop other countries from doing so.

Even at the White House, where Lt. Col. North oversaw the secret program, the interagency committee that routinely oversaw covert operations was bypassed, according to knowledgeable administration officials. Vincent Cannistraro, a CIA officer detailed to the National Security Council staff who ordinarily coordinated oversight of covert action, has said he knew nothing of the diversion to the Contras until Mr. Meese revealed it.

Separately, Robert Gates, the CIA deputy director, and Robert McFarlane, the former national security adviser, testified yesterday before a closed session of the House Intelligence Committee. Mr. Poindexter appeared before the panel but declined to testify, citing his Fifth Amendment right against self-incrimination. Mr. Poindexter also declined to testify when he appeared earlier this week before the House Foreign Affairs committee.

And Robert Dutton, who works for Mr. Secord at Stanford Technology Trading, refused to testify, citing his Fifth Amendment right, during an appearance yesterday before the Senate Intelligence Committee.

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